



USDA Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Template Version 2.09

Voluntary Report - public distribution

Date: 7/9/2004

GAIN Report Number: E34031

EU-25

Trade Policy Monitoring

EU Announces Proposal for New GSP Guidelines for 2006-2015

2004

Approved by:

Christine Strossman

U.S. Mission to the EU

Prepared by:

Lisa Schroeer

Report Highlights:

On Wednesday July 7, 2004, the European Commission announced its proposal to change GSP (Generalized System of Preferences), a policy that is intended to provide favorable trade conditions for developing countries. In October, the European Commission will release a more detailed proposal, which will include tariff figures. The new policy will be implemented on January 1, 2006. The Commission hopes the reform will provide greater transparency, more benefits for the most in need, better regional cooperation, and improvements in sustainable development. Oxfam called the reforms "half-hearted."

Includes PSD Changes: No
Includes Trade Matrix: No
Unscheduled Report
Brussels USEU [BE2]
[E3]

On Wednesday July 7, 2004, the European Commission announced its proposal to change GSP (Generalized System of Preferences), a policy that is intended to provide favorable trade conditions for developing countries. In October, the European Commission will release a more detailed proposal, which will include tariff figures. The new policy will be implemented on January 1, 2006. The Commission hopes the reform will provide greater transparency, more benefits for the most in need, better regional cooperation, and improvements in sustainable development. Oxfam called the reforms "half-hearted."

India brought a complaint to the World Trade Organization (WTO) about the way the EU allotted discounts on import duties. Based on these concerns, the WTO found in April of this year that the EU system was not based on impartial and open criteria. However, it did state that the EU could provide developing countries preferential treatment as long as it applied the same criteria to all 178 of them.¹

The Scope of Proposed Changes

The current GSP has five schemes that provide various preferential treatments for different countries.

- The general scheme,
- The special scheme for the protection of labor rights,
- The special scheme for the protection of the environment,
- The special scheme to combat drug production and trafficking,
- Everything but Arms (EBA), for the worlds 50 poorest countries. For more information on the affects of the EBA policy see Gain Report E23149.

According to the proposal, the new GSP would be simplified with only three different schemes.

- A general scheme,
- EBA,
- GSP+ to give tariff preferences to countries with "special development needs."

The core aim of the proposed regime is to obtain more "transparency, focus, and simplification." The policy aims to focus on the Least Developed Countries (LDCs) as well as those countries with small economies, those that are land-locked or small islands, and low-income countries. It will include a graduation scheme that removes trade privileges once a commodity becomes highly competitive within the EU market. The graduation criteria will be based on market share gained by the beneficiary country. When GSP is no longer needed to boost exports for that good, the good will no longer be benefit from GSP. The plan for the design of the graduation program is to take into account countries most in need, and it would not apply to small beneficiaries.

It is not yet clear how the EU will define "highly competitive" or "small beneficiaries." The Union stressed that graduation should not be considered a penalty, but rather a "sign that the GSP has successfully performed its function." However, depending on exactly how the policy is implemented, it is possible that the support will be removed just as a good is beginning to benefit a country. The ramifications of the policy will not be clear until more information is available.

The GSP reform might also have a component to encourage sustainable development and good governance. These reforms could replace the drug, social, and environment schemes. The GSP+ category would cover these changes. Finally, the reform would work to improve the way the rules of origin affect trade. Complications associated with these rules can hinder

¹ "EU to overhaul import tariffs," *International Herald Tribune*, July 8, 2004.

improvements in trade and production. Gain Report E23149 discusses some of these issues. The new GSP would attempt to adapt rules of origin that would enhance regional cooperation.

The Opinions on Reform

The EU Trade Commissioner Pascal Lamy announced, "The EU is already the world[']s largest provider of trade preferences in favor of developing countries, representing more than all other developed countries taken together. But we want to do even better by focusing on the poorest and most vulnerable developing countries who most need trade preferences to access the EU market." Jo Leadbeater, head of Oxfam's EU advocacy office, stated that the proposals are "only half-hearted," and that strict rules prevent the least developed countries from taking advantage of the duty-free access, particularly in textiles.

While the EU is the largest agricultural importer of products from developing countries, the US is the largest overall importer of products from developing countries. Moreover, total imports from developing countries to the United States are growing more rapidly than are those to the EU. The World Bank cited strict rules of origin and shipping and processing regulations as one significant cause of the decline in exports to the EU. Sanitary and phytosanitary regulations and import standards may also contribute to the decrease in LDC exports to the EU. Another reason problem with the preferences provided by the EU, in the eyes of the beneficiaries, is the possible instability of the agreement. For non-EBA countries, there is no long-term guarantee that preferences will be maintained. The affects of other policies such as trade diversion and export subsidies are discussed further in Gain Report E23149.

RELATED REPORTS FROM FAS EU-25 POSTS:

Report Number	Title	Date Released
E23149	Everything But Arms: Declining agricultural exports from least developed countries	8/6/2003